

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 983 - SB 1181**

February 24, 2013

**SUMMARY OF BILL:** Effective January 1, 2014, increases the monthly reasonable rent allowance for determining net income under Excise Tax Law from two percent to five percent of the appraised value of the property rented from an affiliate.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$222,300/FY14-15 and Subsequent Years**

Assumptions:

- Under current law, if a taxpayer pays monthly rent to an affiliate for industrial and commercial property in excess of two percent per month, or 24 percent annually, of the property's appraised value, any excess amount is added back to the excise tax base.
- This bill would increase the monthly rent allowance to five percent per month, or 60 percent annually, of the property's appraised value, resulting in a lower excess amount being added back to the excise tax base.
- Based on information provided by the Department of Revenue (DOR), and further based from 2010 data, taxable income attributable to the current two percent allowance is estimated to be \$3,769,538. Excise tax collections from this taxable base yields \$245,020 in excise tax revenue to the state ( $\$3,769,538 \times 6.50\%$  excise tax rate). This number is assumed to remain constant into perpetuity under current law.
- Based on information provided by DOR, taxable income attributable to the proposed five percent allowance is estimated to be \$349,277. Excise tax collections from this reduced taxable base will yield \$22,703 in excise tax revenue to the state ( $\$349,277 \times 6.50\%$  excise tax rate).
- The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify its accuracy.
- The total recurring decrease in state revenue as a result of this bill is estimated to be \$222,317 ( $\$245,020 - \$22,703$ ) beginning in FY14-15.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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